

SIXTEENTH CONGRESS OF THE )  
REPUBLIC OF THE PHILIPPINES )  
First Regular Session )



Senate  
Office of the Secretary

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SENATE

S. No. 1280

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Introduced by Senator Ralph G. Recto

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### Explanatory Note

Northrop Frye, a famous Canadian literary critic and theorist once said, "The most technologically efficient machine that man has ever invented is the book."

Frye's quote still holds true to this day. Books and other useful reading materials contribute to a person's intellectual development and imagination.

However, not much has been introduced to the print books since it was first officially printed more than 500 years ago using Johannes Gutenberg's movable type printing press, until 40 years ago, when Michael Hart, founder of Project Gutenberg, started "digitizing" cultural works including books which later became known as e-books. E-books are basically books composed in or converted to digital format for display on a computer screen or handheld device.<sup>1</sup>

Recently, there have been dramatic changes in the world of consumer electronics with the introduction of the latest generation gadgets such as digital books, e-readers, smart phones and tablets. Thus, it would only be a matter of time before learning institutions in the country start to require their students to bring the latest electronic technology to class. Not only are they handy, eco-friendly and space-saving but also, these gadgets will make it easier for students to take down notes and at the same time download books and other useful reading materials from the Internet. Unfortunately, students might find it more expensive to download e-books than buying its printed format since the former is not VAT-exempt.

At present, our Tax Code under Section 109 (1) includes the sale, importation, printing or publication of books and any newspaper, magazine, review or bulletin as exempt from the coverage of the value-added tax (VAT). Exemption from VAT makes books more affordable and more accessible to the public most especially to the students and researchers. However, at the time the VAT Reform Act of 2005 was enacted, e-books and other digitally formatted reading and learning materials were not yet used prevalently and only a handful of electronic devices were capable of reading or displaying e-books. Hence, they were not included in the list of VAT-exempt items. Moreover, the Bureau of Internal Revenue issued BIR Ruling No. 244-2012 stating that the sale of e-books and other electronically formatted versions of books are subject to VAT since it is not one of those listed under Section 109 (1) of the Tax Code.

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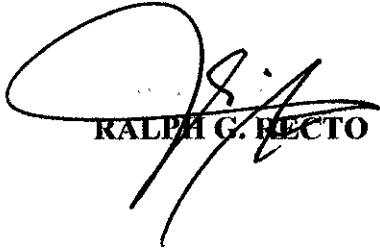
<sup>1</sup> Merriam-Webster



Senate

Guided by the principle that laws must reflect the changing times and encouraged by the countless benefits that e-books will provide the students and researchers in this country, the proposed Bill seeks to exempt books, newspapers, magazines, journals, reviews, bulletins and other educational or learning materials made or published in digital or electronic format from value-added tax.

In view of the foregoing considerations, approval of this bill is earnestly sought.

  
RALPH G. RECTO

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SENATE

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AN ACT

**EXEMPTING BOOKS, NEWSPAPERS, MAGAZINES, JOURNALS, REVIEWS, BULLETINS AND OTHER EDUCATIONAL OR LEARNING MATERIALS MADE OR PUBLISHED IN DIGITAL OR ELECTRONIC FORMAT FROM VALUE-ADDED TAX, AMENDING FOR THE PURPOSE SECTION 109 (1) OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED**

*Be it enacted by the Senate and the House of Representatives of the Philippines in Congress assembled:*

1           **SECTION 1.** Section 109 (1) of the National Internal Revenue Code of 1997, as  
2 amended is hereby further amended to read as follows:

3           “SEC. 109. *Exempt Transactions.* –

4           (1) Subject to the provisions of Subsection (2) hereof, the following  
5 transactions shall be exempt from the value-added tax:

6           “(A) xxx;

7           “xxx

8           “(R) Sale, importation, printing or publication of books and any  
9 newspaper, magazine, review or bulletin which appears at regular  
10 intervals with fixed prices for subscription and sale and which is  
11 not devoted principally to the publication of paid advertisements;

12           “(S) **SALE OF BOOKS, NEWSPAPERS, MAGAZINES,**  
13           **JOURNALS, REVIEWS, BULLETINS AND OTHER**  
14           **EDUCATIONAL OR LEARNING MATERIALS MADE OR**  
15           **PUBLISHED IN DIGITAL OR ELECTRONIC FORMAT;**

16           “(T[S]) xxx;

17           “(U[T]) xxx;

18           “(V[U]) xxx;

19           “W[V]) xxx; and

20           “X[W]) xxx.

21           “xxx.”

22           **SEC. 2. *Implementing Rules and Regulations.*** – The Secretary of Finance, shall, upon  
23 the recommendation of the Commissioner of Internal Revenue, promulgate not later than thirty

1 (30) days upon the effectivity of this Act the necessary rules and regulations for its effective  
2 implementation.

3 **SEC. 3. *Repealing Clause.*** – All laws, acts, presidential decrees, executive orders,  
4 issuances, presidential proclamations, rules and regulations or parts thereof which are contrary  
5 to and inconsistent with any provision of this Act are hereby repealed, amended or modified  
6 accordingly.

7 **SEC. 4. *Effectivity.*** – This Act shall take effect fifteen (15) days after its complete  
8 publication either in the Official Gazette, or in at least two (2) newspapers of general circulation.

Approved,